

July 1956

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Recommended Citation

Edwin Vennard, *The Preference Clause Is Discriminatory*, 18 Mont. L. Rev. 17 (1956).

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The Preference Clause Is Discriminatory

By EDWIN VENNARD*

The preference clause is a public issue of some consequence. It involves a national policy affecting all citizens one way or the other. In some respects the matter is complicated. Yet, I believe and propose to show that, as a practical matter, it results in unjust discrimination among our people. In that respect the issue is rather simple.

There are honest differences of opinion about the preference clause, and I am impressed with the caliber and the earnestness of those who express themselves in its favor. Further, I believe that these public expressions and honest differences of viewpoints will help the American people to decide on that policy which results in the greatest good for the greatest number of people.

If I were speaking for any particular group in the country, it would be for the 80 per cent of American citizens who purchase their power from the investor-owned electric companies. I would speak for them for the reason that, in my opinion, they have been treated unjustly in order that the remaining 20 per cent of our citizens may stand to benefit from the preference clause.

It will be my purpose to explain how this injustice comes about, to analyze the reasons for the continued existence of the preference clause and to suggest an appropriate remedy.

I. MY POSITION ON THE BASIC ISSUE

It may be appropriate to open my discussion of the preference clause with a statement of my position on river development and other matters broadly concerned with power supply.

River Development

- (1) I am in favor of sound river development and effective flood control and prevention in the public interest—always to the extent that they are economically feasible and justifiable.
- (2) To the extent practical, rivers should be developed by the local citizens directly interested.
- (3) To the extent practical, the people who benefit should pay the cost.
- (4) River development may or may not require the building of dams. When dams are built it may be possible to generate economical incidental electric power. This power should be secondary to the primary purpose. Either electric companies should be licensed to generate the power, or the power should be sold at or near the dam, without discrimination, to citizens who want to engage in the power business. This power should be under government regulation. The price should cover all of the costs and should also take into account the value of the power.

Power Capacity

There should be enough electric power for all purposes. Where power companies are able and willing to develop this power, financed through the

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sale of securities to free investors, the government should not spend taxpayers' money to build power plants.

Regulation

Because competitive service in a given area by more than one power supplier is uneconomic, impracticable, and against the public interest, *all* power supply should be under governmental regulation, state or national, depending upon whether the service is intrastate or interstate.

Atomic Energy

It is recognized that the federal government has an important responsibility in atomic research and development. The electric light and power companies should continue in their atomic energy research and development program. A "technical appraisal task force" on atomic power reactors, composed of qualified independent nuclear engineers, scientists and executives of Edison Electric Institute member companies, should review various reactor types and designs and recommend the types and designs which have promise of feasibility for the production of electric power. Where power companies are willing and able to engage in the research and development of atomic energy and these reactors, the government should not spend the taxpayers' money for such development.

II. *CONFUSION IN TERMS*

The terms "private power" or "private ownership" are frequently attached to the system under which the 80 percent of the American people get their power from electric companies. The terms "public power" or "public ownership" are usually applied to the system under which 20 percent of the people get their power from a governmental agency or cooperative. These terms are not accurately descriptive of the two systems and tend to cloud the issue. Surveys of attitudes and knowledge of the American people indicate that these terms have led to confusion.

Since preference plays a prominent part in the controversy involving so-called "public power" it seems appropriate to clarify the ownership of the two systems under which power is developed and sold. In a real sense the public owns the power business in both systems, although in one it is quite an involuntary ownership. There are about 400 electric light and power companies which are owned directly by over 3½ million people through investment in utility company stocks. They are also owned indirectly by almost everyone through insurance companies, investment concerns and the like. There are 93 million insurance policyholders in America. Four out of five American families have some kind of insurance. Insurance companies own about 60 percent of the electric utility bonds outstanding.

In addition, such important community groups as fraternal, religious and charitable institutions, foundations, educational institutions and commercial banks owe a large measure of their ability to serve the public to their investments in the investor-owned electric companies. All these are the owners, direct and indirect, to whom the profits or net income resulting from electric company operations go. Thus, electric companies are financed in the traditional American fashion, just like other basic industries are financed.

Like that of many another industry, the electric industry's history was marked by the struggles of devoted men to bring before a seemingly unappreciative public the advantages to be gained from the widespread adoption of their service. But it is a tribute to the essential faith of these men in the American way that they did not give up. They realized that a really worthwhile innovation filling a definite need will always gain an enthusiastic response eventually, to the benefit of both consumer and producer.

The profit motive, of course, was a major factor in keeping the electric light and power people constantly at work improving their service, overcoming technical obstacles and seeking widening public acceptance. Without that incentive, would this country have the electric service it enjoys today?

The profit motive has always been approved by the great majority of the American people as a proper incentive, and as an integral part of our system of free economy. A traditionally American way of securing this approval is to provide more and better service for less money. The investor-owned electric companies adopted this course of action early in their history, and over the years have produced in this respect the most remarkable record of any industry—and this in the face of the long-term inflationary trend. The high standards of electric service, its continuing technical advance, its general availability, as well as its low cost, all testify to the foresight and unremitting planning, research and development, conducted not only by the electric companies, but by the equipment and appliance manufacturers as well.

In the case of so-called "public ownership" it is said that all the public owns the property. This is true only in the sense that the American people have involuntarily financed the "public power" projects through money paid the tax collector. There is, however, another important difference in the style of ownership. In the case of governmental power operation, or "public ownership," the individual citizen is not free to decide whether or not he is to be an owner. The real test of ownership of property is where the owner can sell or otherwise dispose of it. In the case of governmental "public power" projects the individual citizen cannot sell his alleged share of the property.

On the other hand, under operation by electric companies the individual citizen is always free to own a share of the property or not. If he owns a share, he is free to sell it at the market price.

In view of the ownership situation of the two systems, it thus seems unrealistic, as well as confusing, to describe one as "private power" and the other as "public power." Therefore, in this discussion the terms "electric companies" or "power companies" or "company operation" will be used when referring to the one system, and "government operation" or "government ownership" when referring to the other.

III. *GOVERNMENT POWER IS NOT CHEAP POWER*

The greatest difference in the methods of operation of the two systems lies in the different rules applied. The government makes the rules in both cases. State or federal governmental commissions have control over certain electric company operations and regulate the price of the product. It is

right that government should. The government requires electric companies to pay taxes and this is right. By the nature of the American economy, electric companies must pay market prices for the money that they use to build power generating and distributing facilities. As in the sale of all commodities, the ultimate consumer of electricity sold by the electric companies pays, in the cost of the product, the taxes and the cost of money paid in its production and distribution.

But when government operates the power business, different rules from those applied to the electric companies are established. Let us take the very important matter of regulation, for example. The power operations of federal bureaus and authorities are free from scrutiny or order from any of the duly constituted state commissions, under whose regulation the electric companies operate. Nor are they affected by federal regulatory agencies except in cases where the Federal Power Commission has set up accounting systems and approved rates. Rules, conditions of services and rates are formulated by the power producing agencies, and there is no recourse for the customers other than congressional action.

As in regulation, or rather lack of regulation, other rules for government operation are designed to favor this method. These differences are so great and have such an important bearing on the preference clause that discussion would be useful. But since time will not permit examination of all of the discriminatory differences of the rules, we will presently limit ourselves to two important differences, namely, the cost of money and taxes.

A. Cost of Money

Power Company

The power business requires a large amount of money for plant construction—about eight times that required by an ordinary manufacturer for the same volume of business. Therefore, the cost of money is an important item in the cost of furnishing electric service. Electric companies borrow this money from the investing public. The companies must pay the market price, otherwise people invest their money elsewhere. That is what we call the "free market." This is the method used that is sometimes called the "American system."

Government Power

The government makes the rules on the financing of government power projects or other so-called public bodies. Government power projects do not pay the market price of money. For example, TVA pays no interest on the almost \$2 billion of taxpayers' money donated to it by the Congress. Nevertheless, interest has been and is being paid. It is paid by every taxpayer when he digs out of his pocket every year his contribution to the item marked "interest on the public debt" in the Federal Budget.

In some instances government power projects pay interest, but as pointed out by Representative Frank T. Bow, of Ohio, this interest rate is considerably below the cost of money to the government.¹ Representative Bow also points out that the Administration is not applying the proper interest rate for the cost of money in keeping with terms of the Flood Control Act of 1944.

¹Address before the Edison Electric Institute convention, June 5, 1956.

But the cost of borrowed money to the government does not represent the price that American citizens want for the use of their money when it is used in the power business. The government's general taxing power is a factor that influences the price the banks charge the government for loans. The way to find out what the American people want for the use of their money in the power business is to examine the daily published quotations on purchases and sales of securities of companies in the power business.

If it is argued that the government should be in the power business for the reason that its taxing powers enable the government to borrow money at less than the free market price, then the same argument applies to other businesses. Obviously the end result is a system wholly foreign to that of the American concept.

B. *Taxes*

In the matter of taxes the government also establishes different rules under the two systems. Power companies are taxed by local governing bodies and are required to pay the regular federal income tax. On the other hand, government power projects pay lower, if any, local taxes and are required to pay no federal income tax.

A traditional American trait is fairness. It is one of the characteristics that has made us a great people. Is it not unfair for the men in government who make the rules to require the electric companies to pay federal income taxes and then to set up governmental power businesses and charge them no federal income tax?

It is sometimes argued that there is no logical reason why the government in the power business should pay taxes to itself. Is this not a play on terms? Taxes, like all other expenses, go to make up the cost of furnishing electric service, whether by the electric companies or by governmental agencies. As a result of this unfairness, customers of the electric companies pay federal taxes in their electric bills, whereas customers of the government projects do not.

Now let us examine the results of this discrimination, and its practical effect when coupled with the preference clause. Few people realize the effect of these two subsidies, cost of money and taxes, in government power operations. The notion that government power, or so-called public power, is cheap is a myth. It is simply power that is sold below cost. There is nothing about government which makes men who work there more efficient than men who work in business.

Let us take TVA as an example. If TVA were required to pay the market price of money as the companies must pay, and the same taxes the power companies are required to pay, TVA would have to almost double its rates to break even. In other words, TVA rates are only a little more than half what they should be. As a result of these two subsidies, customers of government bodies such as TVA get their electricity at less than its cost to the government—at the expense of all taxpayers.

Advertisements in nationally circulated publications boast that TVA has available "low-cost" electricity for industry, in order to lure to Tennessee those industries that might otherwise locate in some other state, although the people and the industries of the other states make up the difference between this subsidized power and true-cost power through their taxes which support TVA.

General Vogel, Chairman of the Board of the Tennessee Valley, has said: "A number of factors, aside from those of taxes, interest and profit, are favorable to low power costs in the Tennessee Valley region, and it is upon those that I shall attempt to focus attention. Nevertheless, I cannot ignore the very real advantages accruing to any system which operates for minimum earning rather than a normal profit and which is not required by law to pay interest on its obligations or income taxes to the federal government. In all fairness, it must be admitted that these result in consumer advantages not enjoyed by the customers of private power companies. Any talk about establishing a measure for the cost of power without reference to these factors is, of course, absurd."²

Nevertheless, one of the reasons advanced for establishing TVA in the first place was the purpose of establishing a "yardstick" to measure the proper level for the rates of the electric companies, as a means of keeping the power company rates in line. Is that fair when government power enjoys so great a subsidy? For about 20 years the American people have been told of the TVA yardstick. Those of us in the power business have known all along that it was an unfair yardstick and now we have the frank statement of the present Chairman of the Board of the TVA who recently said, "I don't know how we would ever solve the problem of paying federal income tax, for instance; and insofar as we fall short on that, this is not a yardstick. And I don't kid myself, and I think no one should kid himself, that a yardstick is involved in this. It is a measuring stick, yes."

It seems likely that the inequity, and the special privileges of government power have never been summed up more concisely than by the late Senator Norris, author of the TVA act. When TVA first moved in, and the taxpaying electric companies were forced out, a number of local and state governments found their tax receipts seriously cut. The suggestion was made that TVA should be taxed in the same way that any other power company is, moving Senator Norris to declare in a burst of candor that, if subjected to equal taxation, "*TVA would be out of business in three months.*"

Admiral Ben Moreell, former Chairman of the Second Hoover Commission Task Force on Water Resources and Power, in the course of a series of lectures at the University of Chicago this Spring observed that "the construction of federal power projects as 'yardsticks' to control the rates charged by investor-owned utilities is clearly a deception. By virtue of the various subsidies, particularly the failure to include taxes . . . the 'yardstick' proposed by public power has the equivalent of something in the neighborhood of 24 to 27 inches."

Thus, it appears that there is a mistaken notion about this "cheapness" of government power, or "public power." It is subsidized power. It is power which is sold below cost to a favored few.

IV. PREFERENCE MEANS SPECIAL PRIVILEGE

I should like to lead into the next phase of our discussion, the ultimate effect of the preference clause, with a further quotation from Admiral Moreell. "The preference policy," he said in the course of the University

²Address before the American Power Conference, March 22, 1956.

of Chicago lectures, "in effect, makes any customer of a non-publicly owned utility a second-class citizen so far as federal power is concerned. The company from which he buys power is denied federal power. His neighbor across the road or in the next town, served by a cooperative or a municipality, gets power for less than true cost while he, in his electric rate, pays local, state, and federal taxes in a greater amount because his neighbor pays nothing toward these ends. Investor-financed power companies," he continued, "by their tax payments, are forced to subsidize competing public power. Approximately 80 percent of our people obtain their power from the investor-financed companies and they, in large measure, subsidize the 20 percent who are served by public power."

These discussions, I think, have shown that the most inequitable advantages and weapons enjoyed by federal power projects in competing with the power companies are (1) their complete freedom from federal taxation, (2) the exercise of the preference clause of the Flood Control Act of 1944 and other public power acts in the sale of electricity to a favored group of customers.

Both advantages are flagrantly discriminatory; both are closely related in their operation. The first is mandatory since it is within the provisions of the law as it stands today, and the second has been so interpreted and exercised by the federal power producing agencies. In effect they are responsible, along with elastic interpretations of the law and unrealistic cost allocations and rate setting, for the subsidization of approximately one-fifth of electricity consumers today, at the expense of the other four-fifths.

To give the tax-free status its full weight, federal electricity sales are made preferentially to municipally owned power distribution systems, co-operatives and public power districts, which in turn enjoy federal tax exemption and local exemption in large degree.

A brief look at the origin of the preference clause seems pertinent at this point. According to H. N. Beamer, of the Idaho Public Service Commission:

It is frequently said that the federal power preference statutes had their origin in an early reclamation act of April 16, 1906, and are therefore an established and unchangeable principle in the federal government's resource development program. Such a statement is absolutely false. The preference clauses, as they exist today, had their origin in the Tennessee Valley Authority Act of 1933, and were one of the several vehicles without which the socialization of the electric industry in the TVA area could not have been accomplished.

The Act of 1906 merely provided that whenever a development of power was necessary for the irrigation of lands, the Secretary of the Interior was authorized to lease any surplus power or power privileges "*giving preference to municipal purposes.*" The same wording, "*giving preference to municipal purposes,*" was used in subsequent acts in 1911, and even as late as 1922.³

³"Municipal purposes" means for such purposes as street lighting and water pumping. There was no discrimination among towns or citizens. There was no discrimination in favor of government power or "public power." There was no discrimination in favor of citizens who get their power from "public power" projects and cooperatives.

It is very plain that such a preference was based upon the *use* of power and is in favor of the power *user*. It was, in fact, limited to municipalities as consumers of electric power for municipal purposes . . . as distinguished from the proprietary business of selling power to the public for general use. It was *not* a preference based upon the *type of agency* which distributes power to the actual consumer.

The master plan of the federal power program was set forth in the Tennessee Valley Act of 1933 and in subsequent acts culminating in the Flood Control Act of 1944. In these measures preference in the purchase of federally produced power was extended to all types of public bodies and co-operatives, and government power advocates have arranged for interpretations to suit their purposes. Below-cost pricing is obviously designed to encourage the establishment of local public power systems to qualify as preference customers under the law.

In practice the law has also been used to discriminate against electric companies, even where a company could retail the electricity at a lower figure than could the local, privileged, tax-free systems. This, of course, encourages the continuance of inefficient systems, to the detriment of electric service and the purses of both the local consumer and the taxpayer at large. Again the men in government set the rules. They rule that "public bodies," that is, government power projects, power districts, municipal plants and cooperatives, shall be given preference in the purchase of power generated by the federal government. Thereby they have set up a specially privileged class in America and have said in effect that this privileged class shall have first call on government subsidized power and that other people, the customers of the investor-owned electric companies, shall in effect be classified as second-class citizens.

Is not America a place where special privileges are frowned upon? Is not government the body to which people look to prevent unjust discriminations? This is discrimination and special privilege of the worst sort. To make matters worse, the special privilege spreads like a disease and the preference clause encourages this spreading. So-called "public bodies" want it because of its subsidies. More "public bodies" can get it because they have preference. Carry this process to its logical conclusion and nobody benefits at the expense of anybody else, but you will have one of our great business institutions being run by men in government who also will act as their own regulators.

V. PUBLIC OPINION

Why does this preference policy—which is so unfair and unjust to 80 percent of our people—continue in effect? Possibly we may find the answer suggested in the surveys of public opinion and in other measures of the public's knowledge of these matters.

I am privileged to quote from the results of opinion surveys conducted over the past few years by Central Surveys, Inc. This information will be of interest to both sides of this debate.

Interviews or questionnaires completed covered a broad section of electricity users. They included:

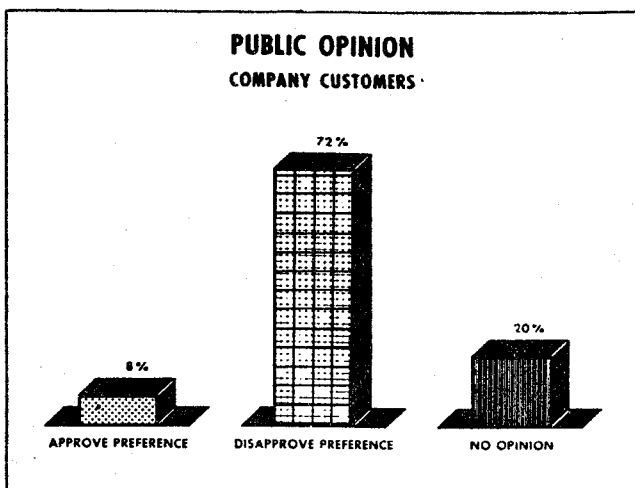
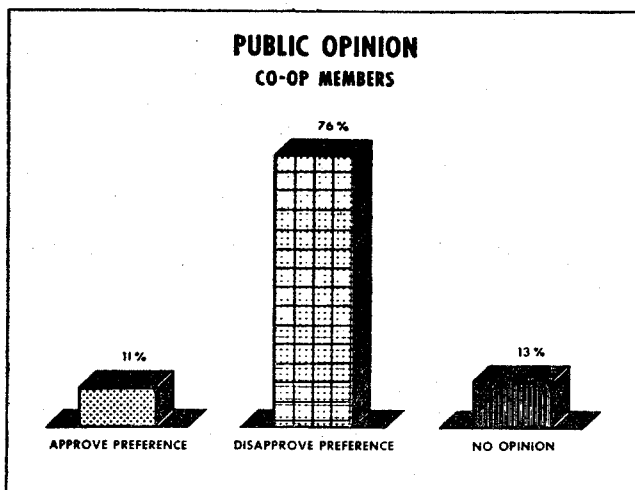
2667 members of rural electric cooperatives in four states,

2250 rural retail customers of electric utility companies, also in four states, and

997 urban retail customers of electric utility companies in three states.

In the rural co-op groups, knowledge of preference status enjoyed was held by only 5% of the co-op members interviewed. Among company customers, only 4% had any knowledge of preference. This in itself is a clue to our trouble. But, more significantly, when informed of the preference, both the customers of companies and the co-op members expressed themselves about 7 to 1 against preference. Here are the results:

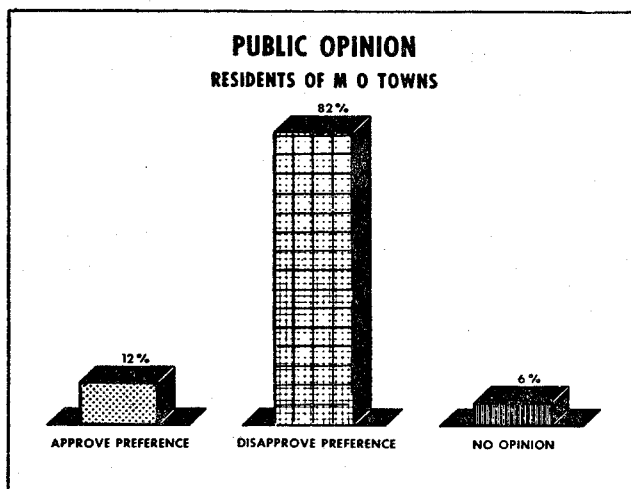
	Co-op Members	Company Customers
Know of Preference	5%	4%
Opinions:		
Support of Preference	11%	8%
Oppose Preference	76	72
No Opinion	13	20



In the aggregate of surveys, when asked why they opposed preference, 66 percent said everybody should have "equal treatment." Eighteen percent mentioned general free enterprise attitudes and 5 percent referred to taxes.

In a South Dakota newspaper poll, we get a clue as to the opinion of customers of a municipally-owned power system. Again we find the vote nearly 7 to 1 against preference. The following table shows these results:

Customers of Municipally-Owned Plant	
Support of Preference	12%
Oppose Preference	82%
No Opinion	6%



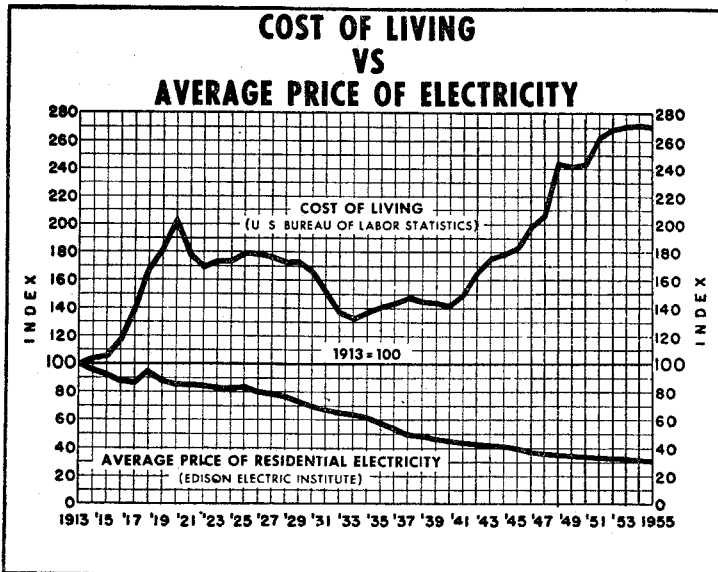
These measures of public attitude seem to indicate that we can attribute continuance of this preference and discrimination to the fact that only relatively few people are informed on the subject. That is why a public debate of this kind is so valuable. That is why such public discussion is in the public interest. Here we have a situation where most people do not know the facts. When informed as to the facts they express themselves as being opposed to preference. This happened in the opinion sampling. It seems logical that the same would happen if Americans generally were informed as to the facts. This suggests that the solution of our problem is in telling people the facts about preference. When properly informed, the American people can be counted upon to demand fair treatment.

VI. VALIDITY OF ARGUMENTS FOR SUBSIDIZED POWER

It may be pertinent to examine here a few of the principal arguments that are often advanced by proponents of the preference clause and government power.

A. *It is sometimes stated that the low rates of such government power projects as TVA helped to keep down the electric rates of power companies throughout the country.*

I have been in close touch with the rate end of the business throughout my business career, beginning in 1928. If space permitted I could demonstrate at length that the above statement is not true. Some evidence of this fact can be found from the accompanying chart which shows the index of the average price of residential electricity of *all electric power companies* in the country over a period of many years. The trend has been steadily downward. This is of particular significance in view of the trend of the over-all cost of living, shown in the upper curve of the chart. On an index base of 100 in 1913, the cost of living index had risen to 270 at the end of 1955 and the average price of residential electricity dropped to the index figure of 30. Note also that the greatest percentage drop occurred before the year 1933, which marked the beginning of the TVA.



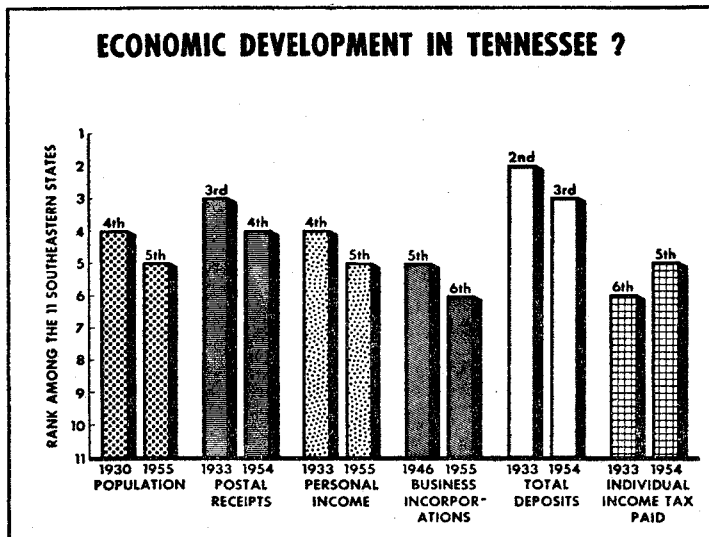
Instead of causing lower rates generally, there is some evidence to indicate that the subsidized government power rates may actually be causing higher rates in neighboring territory than would otherwise be the case. We have seen that the cost of money is a substantial item in the cost of furnishing electric service. The cost of money depends upon the market price of money. When subsidized government power enters a territory, investors in adjoining property may become uneasy lest their investment be destroyed. The risk of investment becomes greater and this tends to increase the cost of money, all of which is reflected in the price of service.

But aside from that point, let us again consider the fairness of such an approach to rate regulation. Let us take a homely case of a grocery store owned and operated by a businessman in the usual American fashion. He has invested his money and possibly that of his friends and associates. He pays taxes including federal income taxes. Assume then that the government decides to build a grocery store beside him in order to set up a yardstick to measure the fairness of his prices or as a means of keeping his prices in line. The food supplies are given to the operator of this government store, after purchase from general tax funds. The operator of the govern-

ment store is required to pay no federal income taxes. Obviously he can sell groceries at a lower price. Is that a fair way to keep the businessman in line? The inevitable result would be that the businessman would sell out or be forced out of business. That is what has happened in the power business in Tennessee. There are practically no power companies left in that state. We, the whole nation, have lost the taxes those companies would be paying, if they were now in existence. The taxes that all people pay are now higher than they would be if those companies were in existence and paying their share. A similar result seems certain wherever subsidized power takes root.

B. It is argued that government subsidized power greatly helps the economic development of a region.

The facts dispute this. Again let's take TVA as an example. The State of Tennessee, principal domain of the authority, has not advanced economically ahead of its neighbors despite the spending by the TVA of about two billion dollars of taxpayers' money.⁴ Among its ten neighbors in the South population-wise Tennessee was 4th in 1930 and 5th in 1955. In construction contracts its position each year has depended upon the rate of government construction. In postal receipts its 1933 standing was 3rd among the eleven states and in 1954 it had slid off to 4th place. In total personal income it was in 4th place in 1933. It has dropped to 5th place and remained there for the years 1943 through 1955. In new business incorporations it stood 5th in 1946 but dropped to 6th place in 1955. In total deposits of all banks it stood 2nd in 1933 and 3rd in 1954. It did advance its economic standing in percent of U. S. total individual income taxes paid; it stood 6th in 1933 and 5th in 1954.



At the House hearings on the Public Works Appropriations Bill for 1956, Representative Phillips, of California, observed to General Vogel,

⁴Data from U. S. Dept. of Commerce, Bureau of Census and Survey of Current Business; Statistical Abstract of the U.S.; Dun's Statistical Review.

Chairman of the TVA Board, that—"the United States Chamber of Commerce compared Tennessee with these other 10 Southeastern States as of 1930 and then in 1950, and found that Tennessee had made no advance during that time in the various criteria which are used in commerce as the testing criteria for improvement, progress, or failure. The states around Tennessee which have been compelled to depend upon private power have done better than Tennessee, which has depended entirely upon TVA power." Continuing, he asked, "Did you want to say anything about that?"

The TVA chairman replied, in part, "I have been very much concerned myself by the undue emphasis placed upon that particular thing, and the slanting which I think it has received at the hands of those who purport to be the champions of TVA. . . . I do not wish to belittle the accomplishments by the TVA, nor the great gains which have been made in the valley, but I am concerned about the overemphasis and the slanting, because I am afraid that people have come to get somewhat of an erroneous impression and, in fact, I do not like that argument at all."

But even if this argument were true, what of the fairness to other regions? Is it fair to tax the people and the industries of all states so that people and the industries of one state can obtain subsidized power?

C. *It is argued that state regulation is inadequate and competition from the federal government is necessary to keep prices in line.*

In my career in rate work I have had occasion to deal with many of our state regulatory bodies. I have found them by and large honest, conscientious and effective. It is a disservice to our state government institutions to say that federal competition is necessary because of the failure of men in local government to perform their duty. If we have a breakdown in state regulation in an area, the people of that area are fully able to bring about the required remedy.

D. *It is sometimes argued that certain areas of our country need economic aid and that the federal government should supply it from government subsidized power.*

This is a rather broad question. It is subject to much debate in itself. If any areas of the country are destitute and need financial aid, let us consider taking care of that in the open. Let us not camouflage the help to an area through such means as subsidized electric power. It is doubtful that the people of Tennessee are unable to stand on their own feet. If the people of Tennessee knew the facts it is doubtful that they would want to continue to receive such benefits as they are now receiving from subsidized power at the expense of their neighbors in other states.

E. *Finally, it is argued that the electric companies should not have a monopoly in the power business, that the government should at least be allowed to be in some of the power business.*

Again, could not the same argument be made for every other kind of business? Should the steel people have a monopoly in the production of steel or should the government also be in that business? By the same argument, should not the government be partially in the business of producing oil and coal and the manufacture of our various products? The answer seems to be that the government should not be in business because it is not

set up to be in business. The American government is set up to be the regulator and the umpire, not the player. Government's primary duty is to maintain order and fair play.

VII. BROAD IMPLICATIONS

I have tried to approach the problem from the standpoint of the analysis of facts which indicates that the present practice is unfair, unjust and discriminatory. However, a discussion of this kind is not complete without reference to the broad implications involved in the kind of thinking that enters into the preference clause. It happens to have particular implications with respect to the power business. If allowed to continue, it can lead to complete government operation of the power business. If the preference principle is proper in the power business, by the same logic it is proper in other businesses. If applied there it will lead to government operation of those businesses.

Obviously the logical end result of the application of this principle will be some kind of social system which is foreign to that intended by the founders of our Constitution. Sometimes this end result is called socialism. At least we find that most definitions refer to a socialistic state as one in which the government operates the principal means of production. We do know that the socialist party in America has advocated government operation of the power business and all the basic industries from the very beginning. We know the socialist parties in England, and in other countries stand for government operation of key industries, including power. We know that Lenin believed that socialization of power was one of the first steps in the creation of a socialistic state.

From this it should not be inferred that all of the people in America who believe in government operation of the power business are necessarily socialists. It does not mean that my worthy opponents in this debate are socialists. Nevertheless, we are living in an age when we need to analyze these problems carefully. On all sides men discuss our present troubled times. We are prosperous, and yet serious men are gravely concerned lest we in our generation somehow fail to leave future generations the great gifts and opportunities we have enjoyed. These have been possible because we have been free—individually free—free from the government domination which has plagued mankind throughout all history—free from the government domination which today plagues most men on earth. We can trace our spiritual, moral and material well-being to this freedom. We have material strength because of it. In our generation we have fought two world wars in defense of this freedom. Even today we find the world divided into two camps, each engaged in a race of preparation of fearful arms against what might come. We are ready again to use these arms in defense of our freedom if necessary, although we pray every day it may not be.

You asked what has this to do with preference. It has much. Thoughtful men believe, and I concur, that there is more danger of our losing our freedom by reason of something happening within us than by sabotage by outside forces. History teaches us that most peoples have lost what freedom they had by reason of these inside forces. I also believe that if we lose freedom as a result of something happening within us it will not be through the adoption of socialism or communism, in name. We must not confuse our-

selves with terminology. Government control and operation of the means of production has been called by many names throughout all history and in all cases it has been accompanied by absence of individual freedom.

Basically speaking there are only two kinds of society :

- (1) There is the philosophy that the individual should rely upon government for his personal economic security and advancement. The government is responsible for his welfare and livelihood. The government controls the economy. The government uses force, which is the only means available to a government, to operate such a system. We have called this system by many names. We have called the head man a Pharaoh, a Caesar, a Czar, a King, a Fuehrer, a Tyrant, a Dictator. Man is not free.
- (2) The other philosophy requires that the individual rely upon himself for his personal economic security. He sets up a government to maintain order and fair play. He takes the risk. He is free.

Our danger in America lies in Americans who through lack of knowledge or otherwise call upon their government to do for them those things which men can and should do for themselves. The danger lies in men in government who try to do for the people those things which the people can and should do for themselves.

These dangers were foreseen by Thomas Jefferson when he said :

A wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned—this is the sum of good government. . . .

If we can prevent the government from wasting the labors of the people, under the pretense of taking care of them, they must become happy.

The preservation of our freedom in America lies in the hands of our citizens. If we call upon our government to take care of us the government will do it, but let us think well before we make such demands. As in the case of the followers of Abraham, who flocked into Egypt, the end result is slavery and bondage. It may be some time before we have another Moses to lead us out.

Preference thinking is the kind of thinking that results in the performance by government of those tasks which the American people should perform for themselves. Preference leads to government operation of an important segment of our productive economy when that segment can well be handled by free men taking care of themselves without calling upon their government for help.

VIII. *SUGGESTED REMEDY*

Let us briefly review the basic facts that I have tried to present :

1. The preference clause is unfair and unjust in that it benefits about 20 percent of our people at the expense of 80 percent.
2. The preference clause results in a waste of taxpayers' money in

that it leads to government construction of power facilities that can and should be built by the citizens.

3. The preference clause breeds on itself and leads to more and more government operation of the power business, which ultimately can lead to complete government operation.

4. The preference clause is un-American. This kind of thinking and practice could lead to the kind of social system where individual freedom could not exist.

5. At the beginning of my discussion I said the preference clause issue was simple in that it resulted in unjust discrimination among our citizens. The opinion surveys show conclusively that when the American people know the facts they are overwhelmingly opposed to it.

This, I think, brings us to the point where we can ask the question, "What is the remedy for the unjust and harmful discriminations of the preference clause?" The remedy, it seems to me, has two components. The first lies in that great corrective of injustices and abuses—an informed public opinion. It depends upon the knowledge and then the wisdom, the good sense, and the sense of fairness and justice of the general public and of Congress. The second component of the remedy, briefly, lies in the amendment of the existing unfair legislation concerning the sale of power from federal generation plants. Such amendments would require that governmentally produced power (1) be sold at point of generation, (2) be sold at its fair market value, and (3) be allocated in proportion to the number of rural, residential and retail commercial customers served by the respective applicants for the power.

Everyone, I think, will agree that only the American people, informed and purposeful, can exert the influence necessary to correct legislation that is harming their best interest. The traditional love of individual freedom of Americans, the inherent sense of justice and equity of the great majority offers assurance that once the issues are known there can be no fear of the outcome.

How can the issues become known to the public? That, frankly, is a problem of great magnitude that needs the work of willing hearts and hands of those who are interested in fair play and the preservation of our American traditions. The preference clause and tax exemption carry within themselves the seeds of decay, the virus of privilege, and unfairness and loss of revenue to government that foredoom them to ultimate extinction. Nevertheless, it seems a clear duty to hasten in every fair and honest way the end of these cancerous growths that devitalize and endanger a healthy economy. This will require the use of many avenues of communication—word of mouth; the printed word, and honest public debates. Such public discussion is in the public interest because, I believe, a well-informed public will reach the right solution.